

Louisiana Legislative Auditor

BEST PRACTICES – BANK RECONCILIATIONS

The Louisiana Legislative Auditor (LLA) is providing the following best practices to help local government entities create their own written policies and procedures. Because this document may not include all legal provisions applicable to different types of local government entities, entities should consult with legal counsel when developing written policies and procedures. Also, many of the legal provisions referenced in this document may not apply to quasi-public organizations, such as non-profits. Quasi-public organizations should refer to the LLA’s legal FAQs for additional guidance.

Sources:

Louisiana Legislative Auditor FAQs – <https://www.lla.la.gov/legal-faqs/>
Bank Statement Review - La. R.S. 10:4-406(d)(2)
Unclaimed Property - La. R.S. 9:151 et seq.
Security as Collateral – La. R.S. 39:1221 and R.S. 39:1225

Written policies and procedures over bank reconciliations should include controls over **preparation** and **review**.

Preparation:

1. The entity should appoint a bank reconciliation “preparer” who is not involved in processing cash receipts or disbursements, including recording these transactions in the accounting records.
2. The preparer should receive the bank statements unopened directly from the bank and prepare a reconciliation between the bank balances and the accounting records within 30 days. State law allows for 30 days to examine bank statements and canceled checks for unauthorized signatures or alterations. After 30 days, the entity is precluded from asserting a claim against the bank for unauthorized signatures or alterations.
3. As part of the reconciliation, the preparer should consider whether (1) all receipts and disbursements are recorded by the entity; (2) checks are clearing the bank in a reasonable time; (3) reconciling items are appropriate and are being recorded; and (4) the reconciled cash balance agrees to the general ledger balance. Any differences between the bank balances and accounting records (e.g., deposits not clearing the bank, unusual disbursements or transfers) should be immediately researched and resolved. Any adjustments to the

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accounting records should be recorded by someone other than the employee performing the bank reconciliation.

4. The preparer should also research reconciling items that are outstanding for more than six months to determine if the checks need to be voided and reissued or whether the funds need to be submitted to the State Treasurer in compliance with unclaimed property laws.
5. Once the reconciliation is prepared, the preparer should sign/initial and date (or electronically log completion).

Review:

1. The completed bank reconciliation, bank statement, and supporting documentation should be immediately reviewed by a designated official who is knowledgeable about the entity's operations but does not handle cash, post ledgers, or prepare checks.
2. Once the reconciliation is reviewed, the reviewer should sign/initial and date (or electronically log completion).

Other:

1. For small entities that have limited personnel, it may not be possible to have an employee with no receipts/disbursements functions reconcile the bank statements. In those cases, we suggest that bank statements be received unopened by either the chief executive officer or a designated board member, for his/her review.
2. When preparing bank reconciliations, the entity should periodically review the collateralization of its demand deposits to verify that bank balances are fully secured and that the types of securities pledged by the financial institution are appropriate. The frequency of such review depends on whether the entity routinely has deposits that exceed FDIC insurance.